

Additional Retirement Service Credit (Air-Time)

What is Additional Retirement Service Credit?

This service credit purchase option allows eligible CalPERS members can purchase "additional retirement service credit" that can be applied toward retirement benefits. It is sometimes referred to as nonqualified service. In some cases, a member must have past employment to purchase the additional credit. The costing method is intended to be "cost neutral" to employers, which means the member covers the entire cost to fund future benefits.

How do I determine if I'm eligible?

You must be a CalPERS member in compensated employment with a CalPERS-covered employer and have at least five years of earned service credit when you make the election. The purchase of other types of service credit may not be used to meet the 5-year requirement. Your employer does not have to amend their CalPERS contract or pass a resolution to provide this new service credit option.

How do I request cost information and election documents?

You will need to submit your request using the ***Steps for Requesting Additional Retirement Service Credit (ARSC)*** form. The form includes instructions for completing.

What is the purchase request process?

First, you'll be required to get an online cost estimate for additional service credit by using the online [Service Credit Cost Estimator](#). We also recommend you complete an estimate of your future retirement benefits with and without the purchase of this additional credit by using the [Retirement Planning Calculator](#). Then, if you decide to make the purchase, mail your form to CalPERS, along with a copy of your online service credit cost calculation results.

What payment options are available for this purchase?

You can pay the cost in full, select a payment plan, or pay a portion up front (like a down payment) and then pay for the balance through a payment plan.

Can I make a full or partial payment with a pre-tax lump sum rollover?

CalPERS accepts both **rollovers** and **in-service, plan-to-plan transfers** from Internal Revenue Code 401(a), 401(k), 403(a), 403(b), and governmental 457 plans, as well as from Traditional/Contributory or Conduit IRAs (but not Educational or Roth IRAs). You will be required to certify corresponding compensated employment for any portion of your credit which is purchased with an in-service, plan-to-plan transfer from a 403(b) or governmental 457 plan. To find out more, check our [Employment Certification FAQs](#) section.

What is the difference between a rollover and an in-service, plan-to-plan transfer?

An in-service, plan-to-plan transfer takes place when a distribution event (i.e. disability, separation, retirement, etc.) has not occurred. Generally, the plan is sponsored by your current employer but you are not entitled to a distribution. A rollover occurs after you have access to the funds. For example, distributions from a prior employer or from a current employer's plan at retirement are considered rollovers, rather than plan-to-plan transfers. Both in-service transfers and rollovers permit you to transfer funds while continuing to defer their tax liability.

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What is the difference between a direct rollover and an indirect rollover?

Rollovers can be either direct or indirect. In a direct rollover, your funds are transferred directly from one plan to another, with the check made out to the receiving plan. An indirect rollover is when the funds are actually distributed to you (the check is actually made out to you). You cash the check and then pay an amount equal to the distribution into an eligible retirement plan within 60 days. If you don't roll your funds within the 60-day period, the distribution is included in your gross income and is taxable.

CalPERS accepts both direct and indirect rollovers, but if you're considering an indirect rollover, you should contact us for additional indirect rollover process information prior to requesting the distribution. Indirect rollovers require the same plan certification as required for direct rollovers, plus an indirect rollover certification form. The indirect rollover process cannot be used in place of plan certification when the certification is not available or difficult to get.

Can I apply an employer-paid lump sum (i.e., vacation, sick leave, or any other employer-paid lump sum payment) on a pre-tax basis directly to CalPERS?

Pre-tax lump sum payments can only be accepted from qualifying retirement plans.

If I am eligible to put my employer-paid lump sum payment into my employer-sponsored retirement plan, can I then roll the funds to CalPERS on a pre-tax basis?

Yes, if the payment is paid into the plan on a pre-tax basis, you are eligible for a service credit purchase or balance payment. The plan is a qualifying retirement plan and CalPERS can accept the payment as a rollover or in-service, plan-to-plan transfer.

If my employer is willing, can they pay for my Additional Retirement Service Credit on a pre-tax basis?

CalPERS does not accept payment in this form.

How does the payment plan work?

A payment plan is available which, depending on the amount you owe, can extend up to 180 months (15 years). The election information package we'll send you will include payment amounts for different whole years, so you can choose which works best for you. You can also make a partial lump sum payment, then use a payment plan for the remaining balance. Keep in mind that if a payment plan is selected, you will be required to pay interest on any unpaid balance. You will also be required to certify corresponding employment for credit paid for with installments.

Can payments be made on a pre-tax basis?

Pre-tax payroll deductions can be selected if your employer participates in our Pre-Tax Payroll Deduction Plan. While the State participates, many school and public agency employers do not. If pre-tax deductions are approved and your employer participates, we'll send you information on this with your election package. Once pre-tax payments are elected, you cannot alter the payment schedule, make partial lump sum payments, or pay the balance off early while still employed with an employer participating in the Pre-Tax Payroll Deduction Plan.

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If I choose a payment plan, can I later make a partial payment or pay the balance off early?

You can apply a partial or full payment on the balance only if you choose an after-tax payment plan. You should contact us for submittal instructions and a balance due amount before you make your payment. You can also increase your installment payment amount to save on interest and pay the balance off earlier. However, if pre-tax payments are being reported, no payment against the balance or change in payment schedule can be made while you are employed with an employer participating in the CalPERS Pre-Tax Payroll Deduction Plan.

If I start with after-tax payments, can I later switch to pre-tax payments?

You can switch to pre-tax payments as long as you're working for an employer participating in the Pre-Tax Payroll Deduction Plan. The switch would be processed on a going-forward basis. Once your pre-tax payments are established, you cannot return to after-tax payments while working for an employer providing the pre-tax option.

How will after-tax vs. pre-tax payments affect the taxes on my retirement benefit income?

Current law provides for a tax-free portion of your retirement allowance that is based on already-taxed contributions and an expected number of lifetime payments. Any outstanding balance you owe at retirement will be paid with after-tax dollars, and will be included as already-taxed contributions in the non-taxable portion of your retirement benefits. You may want to speak with your tax advisor about your overall tax situation and review our publication **Taxes and Your Retirement** before making any decision about pre-tax vs. after-tax. This booklet has payment examples of how after-tax contributions are used to determine the tax-free portion of your allowance. Keep in mind that once you select the pre-tax payment option, you cannot alter the payment schedule while employed with an employer participating in the CalPERS Pre-Tax Payroll Deduction Plan.

As you probably know, CalPERS has a new option to purchase additional service credit known as "air-time". As part of the optional program, CalPERS is allowing employees to pay for air-time using money they have saved in other retirement plans, such as 457 plans and 401(a) Money Purchase Pension Plans. However, the availability of these options for District employees varies depending on whether you are planning to use money in other retirement plans to purchase air-time during your service with the District (AKA an "in-service transfer"), or concurrent with your separation from District service (AKA a "roll-over").

"ROLL-OVERS"

A roll-over is when you transfer money from one retirement plan to another concurrent with your separation from service. Employees who are near to retirement or otherwise near to a separation from service may elect to roll-over their 457 plan money to pay for air-time service credit. The same is true for 401(a) Money Purchase Pension Plan funds.

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"IN-SERVICE TRANSFERS"

Employees who want to pay for air-time now though they are not close to retirement or separation from service, and want to use their 401(a) Money Purchase Pension Plan funds for that purpose may elect an "in-service transfer" from the MPPP to CalPERS. However, in-service transfers of 457 plan funds to pay for air-time are not allowed.

WHY ARE IN-SERVICE TRANSFERS OF 457 PLAN FUNDS TO PAY FOR AIR-TIME NOT ALLOWED?

HR staff has researched this question extensively and determined the following:

- 1) There is a disagreement between CalPERS and the IRS on the definition of "service" in terms of the air-time purchase program. Specifically, the IRS has taken the position that "service" must represent actual time worked and that the air-time purchase program does not comport with the current state of the Internal Revenue Code. The CalPERS lawyers have created a work-around in which they are requiring certification of previous service from those who want to purchase air-time.
- 2) It is not clear at this time whether the certification of previous service will satisfy the IRS.
- 3) There is legislation in the Senate Finance Committee (S2424 Section 411) that seeks to fix the problem but it hasn't gone anywhere.
- 4) The IRS is supposed to issue a letter ruling about a year from now that may resolve, or at clarify, the issue.
- 5) In the meantime, there is a distinct possibility (though it is unlikely) that allowing in-service transfers of 457 funds could disqualify the District 457 plan's tax-exempt status. This is why we have taken the difficult decision to not allow in-service transfers of 457 funds. Once the IRS has issued the letter ruling we will revisit the issue. We are erring on the side of caution because the downside of ending up on the wrong side of this argument between CalPERS and the IRS is too great.

There are other mechanisms to pay for air-time, including installment payments.

We will keep you updated on any changes to the situation and we regret any inconvenience this may cause you.